

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 NEA-09 ISO-00 SP-02 AID-05 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-02 H-02

PA-02 PRS-01 USIA-15 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 FEAE-00 ERDA-07

DODE-00 FPC-01 INT-05 PM-03 SAM-01 OES-05 /125 W

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FM AMEMBASSY TRIPOLI

TO SECSTATE WASHDC 2080

AMEMBASSY KINSHASHA

UNCLAS SECTION 1 OF 2 TRIPOLI 0330

E.O. 11652: N/A

TAGS: EAID, EINV, ENRG, LY, CG

SUDECT: LIBYAN PARTICIPATION IN JOINT WORLD BANK

LOAN FOR ZAIRE COPPER AND COBALT

BEGIN SUMMARY. LIBYA MAY BE ALTERING ITS ULTRA-CONSERVATIVE POLICIES TOWARDS INVESTMENT IN THIRD WORLD COUNTRIES. RECENT AGREEMENT WITH ZAIRE INDICATION THIS. WE ADVANCE HYPOTHETICAL EXAMPLE OF HOW AGREEMENT MIGHT WORK OUT. LIBYAN INVESTMENT/ AID TIED TO EXPORT PROMOTION POLICIES. ADVANTAGES FOR BOTH COUNTRIES BUT PUBLICITY UNLIKELY. END SUMMARY.

1. DURING MOST OF MARCH LIBYAN MEDIA HAVE BEEN PUBLICIZING AGREEMENT REACHED 11 MARCH BY WORLD BANK AND LIBYA TO FURNISH \$200 MILLION INVESTMENT IN DEVELOPMENT ZAIRE COPPER AND COBALT INDUSTRIES. LIBYA TO PROVIDE HALF CAPITAL WITH REPAYMENT 15 YEARS AT ESTIMATED EIGHT PERCENT INTEREST WITH FOUR-YEAR GRACE PERIOD.

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2. WE ADVANCE FOLLOWING HYPOTHETICAL COMMENT ON

LIBYAN-ZAIRE ECONOMIC RELATIONSHIP BECAUSE OF LACK OF ALTERNATIVE REASONABLE EXPLANATIONS FOR FLURRY OF ACTIVITY BETWEEN TWO NATIONS. POSSIBLE ALTERNATIVES, NONE OF THEM SOUND, INCLUDE (A) WHOLE EXERCISE IS JUNKETEERING; (B) LIBYANS, IN PERIOD INCREASING ILLIQUIDITY, ARE WILLING ADVANCE ZAIRE POCKETFUL CONVERTIBLE CURRENCY FOR NO CONCRETE POLITICAL BENEFIT; (C) LIBYANS ABANDONING THEIR CONSERVATIVE HARD HEADED ATTITUDES TOWARDS FOREIGN INVESTMENT.

3. DESPITE EARLIER INTERNATIONAL EXPECTATIONS OF OPEC NATIONS' FUND TRANSFERS, LIBYA HAS, SO FAR AS WE KNOW, HELD BACK FROM ANY SUCH INVESTMENT IN TRUE MEANING OF TERM. LIBYA HAS EITHER (A) PLACED EXCESS FUNDS IN VERY SECURE, HIGHLY LIQUID SAVINGS IN INDUSTRIALIZED COUNTRIES OR (B) MADE PAYMENTS ON ONE-TIME BASIS FOR POLITICAL ENDS WITH LITTLE HOPE ECONOMIC RETURN. COUNTRY'S FINANCIAL AUTHORITIES HAVE AVOIDED TYING UP FUNDS FOR LONGER TERM, FOR ANY PROJECTS THAT HAD ODOR OF RISK OR OF RETURN OVER INDEFINITE FUTURE. NONETHELESS THIRD WORLD NATIONS HAVE PERSISTED REQUESTING LONGER TERM ASSISTANCE.

4. IN RECENT MONTHS, ONE NEW ELEMENT HAS ENTERED OVERALL FINANCIAL PICTURE HERE--DIFFICULTIES LIBYANS ENCOUNTERING IN SELLING CRUDE OIL FROM NATIONALIZED FIELDS. TWIN PRESSURES OF PLEAS FROM POORER AFRICA-ASIAN STATES AND NECESSITY TO SELL NATIONALIZED OIL (FOR PRESTIGE AND CASH FLOW) MAY HAVE INDUCED LIBYANS TO CONSIDER INVESTMENT POSSIBILITIES FROM NEW VIEWPOINT.

5. FOR EXAMPLE, LIBYANS COULD OFFER ZAIRE NATIONALIZED OIL (WORLD PRICE \$11.50) AT SAY 50 CENT DISCOUNT UNDER TERMS \$7.50 PAYABLE IN CONVERTIBLE CURRENCY AND \$3.50 IN EQUITY SHARES IN ZAIRE MINERALS INDUSTRY. EQUITY THUS GENERATED PER YEAR. ASSUMING TRANSFER OF 15,000 BARRELS PER DAY, WOULD BE IN UNCLASSIFIED

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EXCESS \$19 MILLION PER YEAR.

6. GAINS FOR ZAIRE: ASSURED SOURCE OF OIL, ASSUMING, AS WE MUST, THAT ZAIRE GOVT OFFICIALS ARE STILL AS WORRIED AS WESTERNERS OF SHORTAGES IN FACE TODAY'S CRUDE GLUT; CRUDE SUPPLIES AT CONVERTIBLE CURRENCY OUTLAY CONSIDERABLY BELOW WORLD PRICES AND WITH LESSENED STRAIN ON BALANCE OF PAYMENTS.

7. GAINS FOR LIBYA: ANNUAL EARNINGS EXCESS \$35 MILLION AT \$7.10 PER BARREL IN CONVERTIBLE CURRENCY ON OIL CURRENTLY SELLING POORLY OR NOT AT ALL (IN OTHER WORDS CASH FLOW OF \$7.50 ON CRUDE COSTING 40 CENTS PER BARREL TO PRODUCE); ASSISTANCE TO POOR COUNTRY IN AFRICA WHERE NIGERIAN POLICY HAS ALREADY BREACHED OPEC LINE; SALES TO COUNTRY OUTSIDE NORMAL MARKETS (READ OECD COUNTRIES) WHERE SUCH SALES WOULD NOT CAUSE FURTHER BREAK IN OPEC PRICING SYSTEM; EQUITY IN ZAIRE INDUSTRY FOR ZERO CASH OUTLAY.

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8. ANY KNOWLEDGEABLE OUTSIDE OBSERVER CAN POINT THAT ALL OF ABOVE SCENARIO BASED ON ASSUMPTIONS LIKELY BE CHANGED OVER ANY LENGTH OF TIME, E.G. DROP IN WORLD CRUDE PRICES, CHANGE IN ZAIRE CRUDE IMPORT REQUIREMENTS, UNDERSELLING BY OTHER OPEC NATION ETC. THIS ANALYSIS BASED SOLELY ON SITUATION AS IT PROBABLY APPEARS TO LIBYAN POLICY MAKERS AND ITS VALIDITY TO THEM. FIGURES RELATING TO PROPORTIONS

BETWEEN PRICES, EQUITY GENERATION AND DISCOUNTS ARE
SUPPOSITIONS AND CAN NOT BE DEMONSTRATED. ANY
AGREEMENT WOULD DOUBTLESS CONTAIN CLAUSE ASSURING
FREQUENT, PROBABLY QUARTERLY REVIEW OF TERMS AND
ONE OR BOTH PARTIES QUITE POSSIBLY WILL TERMINATE
ARRANGEMENT IN TIME.

9. IF ZAIRE OFFICIALS HAVE ACHIEVED ANY SUCCESS
OBTAINING SPECIAL ARRANGEMENT WITH LIBYANS, PRUDENCE
WOULD REQUIRE THEM TO DENY ANY PUBLICITY ON
AGREEMENT. LIBYANS ALWAYS UNCOMMUNICATIVE. SOLE
WAY WE WILL BE ABLE TO MONITOR SUCH ARRANGEMENT IS
BY OBSERVING MOEMENTS LIBYAN CRUDE TO ZAIRE
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MARKET--RAPID INCREASE WOULD INDICATE SPECIAL
ARRANGEMENTS.

10. FEW COLLEAGUES IN TRIPOLI'S EXPATRIATE
COMMUNITY WITH WHOM WE HAVE SPOKEN ON THIS MATTER
AGREE LIBYAN INVESTMENT IN ZAIRE ONLY MAKES SENSE
IF TIED TO INCREASED EXPORTS BY LIBYA, AND, BESIDES
RUDE OIL, LIBYA HAS NOTHING TO EXPORT. IF
SUPPOSITIONS VALID, LIBYA WILL NOT HAVE BEEN FIRST
COUNTRY TO HAVE TIED ITS INVESTMENT/AID POLICIES TO
INCREASED EXPORTS.
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